

UNITED STATES DISTRICT COURT
EASTERN DISTRICT OF WASHINGTON

NUMBERS LICENSING, LLC, a
Washington limited liability
company,

Plaintiff,

v.

bVISUAL USA, INC., a Delaware
Corporation; bVISUAL GROUP
LTD., d/b/a VISUAL WORLD
DISTRIBUTION LTD., an Irish
Corporation; bVISUAL S.A., a
Panamanian Corporation;
STEPHAN ANTHONY LARSON; BRIAN
LARSON; JANE DOE LARSON, and
their marital community; TOM
BORKOWSKI, an individual; and
ALLAN HOLBROOK, an
individual,

Defendants.

NO. CV-09-65-EFS

**ORDER GRANTING DEFENDANTS
MOTION TO STRIKE AND DENYING
PLAINTIFF'S MOTION FOR
PRELIMINARY INJUNCTION**

A hearing occurred in the above captioned matter on July 8, 2009, in Spokane. Stacie Foster appeared on Plaintiff, Numbers Licensing, LLC's behalf. Phillip Samouris and Chad Mitchell appeared on behalf of Defendants' bVisual Inc, Stephan Larson, Brian Larson, and Alan Holbrook. Helen Boyer appeared on Defendant Tom Borkowski's behalf. Before the Court were Defendants'¹ motion to strike and Plaintiffs motion for

¹ Motion was filed on behalf of Defendants' bVisual Inc, Stephan
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1 preliminary injunction. (Ct. Recs. 47 & 9) After reviewing the submitted
2 material and the relevant authority, the Court is fully informed and
3 grants Defendants' motion to strike and denies Plaintiff's motion for
4 preliminary injunction. This order serves to supplement and memorialize
5 the Court's oral rulings.

6 I. BACKGROUND²

7 A. bVisual's Creation

8 Tony and Brian Larson founded bVisual in February 2005. (Ct. Rec.
9 45-3 at 2.) bVisual's business is developing internet-based audio and
10 video conferencing services. *Id.* At the outset, Tony Larson constructed
11 the conceptual framework for this internet-based video conferencing
12 platform ("the System"). (Ct. Rec. 66 at 3.) Then, in April 2005,
13 bVisual started hiring outside software engineers to turn Tony Larson's
14 vision into reality. *Id.*

15 B. bVisual's Hires and Compensation Structure

16 bVisual's first additional software engineer hire was John C.
17 Oelund. (Ct. Rec. 45-3 at 3.) Mr. Oelund helped bVisual develop the

18 _____
19 Larson, Brian Larson, and Alan Holbrook. Defendant Borkowski joined the
20 motion.

21 ² In developing the background, the Court resolved existing
22 factual disputes after reviewing the submitted evidence. *See generally*,
23 *Perfect 10, Inc. v. Amazon.com, Inc.*, 508 F.3d 1146, 1157 (9th Cir.
24 2007); *Thomas v. County of Los Angeles*, 1993 U.S. App. LEXIS 2165 at *10-
25 11 (9th Cir. Feb. 12, 1993). These factual findings are for purposes of
26 this preliminary injunction only and are not binding. *Sierra On-Line,*
Inc. v. Phoenix Software, Inc., 739 F.2d 1415, 1423 (9th Cir. 1984).

1 System's video transmission and screen-sharing source code. *Id.* When Mr.
2 Oelund left bVisual for personal reasons in June 2006, he had been
3 compensated \$105,000.00 in cash and stock for his services and understood
4 that bVisual had full rights to the code he developed. (Ct. Rec. 45-5
5 at 3.)

6 bVisual's second software engineer hire was Rand Renfroe. (Ct. Rec.
7 45-3 at 3.) Mr. Renfroe worked for Numbers Consulting, Inc., a
8 corporation he formed with his wife, Jan Renfroe, in March 2002. (Ct.
9 Rec. 66 at 2.) Mr. Renfroe, with feedback and direction from Tony Larson
10 and others, created the source code, i.e., the blueprints, for the
11 System. (Ct. Recs. 45 at 3-5; 66 at 4-6.) Over the course of three (3)
12 years, bVisual paid Mr. Renfroe \$370,000.00 in cash plus 21,965 shares
13 of bVisual stock for his services. (Ct. Recs. 45-3 at 8; 66 at 2.)
14 bVisual did not pay Mr. Renfroe directly; instead, Numbers Consulting,
15 Inc. ("Numbers") billed and collected for Mr. Renfroe's services. (Ct.
16 Recs. 10, Ex. A; 66 at 2.) Numbers was also responsible for Mr.
17 Renfroe's tax obligations and employee benefits. (Ct. Recs. 64 at 2; 62
18 at 2; 45-3 at 7.)

19 bVisual's third additional software engineer hire was Tom Borkowski.
20 (Ct. Rec. 45-6.) Mr. Borkowski helped bVisual develop the System's audio
21 source code. *Id.* bVisual compensated Mr. Borkowski approximately
22 \$250,000.00 in cash and stock for his services; Mr. Borkowski understood
23 that bVisual had full rights to the code he developed. *Id.* at 2.

24 **C. Mr. Renfroe's Employment**

25 Mr. Renfroe worked with bVisual from July 2005 until November 2008.
26 (Ct. Rec. 45-3 at 3.) During this time, he signed bVisual's non-
disclosure agreement, which required him to keep information confidential

1 while fulfilling his "transactional services" for bVisual. (Ct. Rec.
2 45-3, Ex. 1.) Mr. Renfrore did not sign (either as an individual or on
3 behalf of Numbers Consulting, Inc.) a contract with bVisual detailing
4 compensation, scope of work, or ownership of the intellectual property
5 rights being created.

6 With a few exceptions, Mr. Renfrore developed the System's source
7 code on his own schedule from an office provided by Numbers Consulting,
8 Inc. (Ct. Rec. 66 at 3.) He provided daily progress reports to bVisual
9 and delivered updated versions of the source code approximately every two
10 (2) weeks. (Ct. Rec. 45-3 at 5.) Tony Larson, Mr. Renfrore, and others
11 would then discuss the recent updates and what "tweaks" needed to be
12 made. (Ct. Rec. 66 at 6-7.) Tony Larson's role in the System's
13 development was largely supervisory; that is, while Mr. Larson was
14 involved in general discussions about the System's overall design,
15 features, and possible ways to fix software bugs, he never performed
16 "brass tacks" tasks such as technical code review because he lacked the
17 ability to write or understand "code drafting languages" such as C++, C#,
18 or the .Net platform. (Ct. Rec. 66 at 6.)

19 As the System's development progressed, Mr. Renfrore began adding
20 copyright notices in the source code, which read: "Numbers Consulting for
21 bVisual, copyright." (Ct. Rec. 45-3 at 5.) In fact, in 2007, Mr. Renfrore
22 explicitly asked bVisual for guidance on how the System's copyright
23 notice should read in the code. (Ct. Rec. 45-3, Ex. 5.)

24 With respect to equipment and development, bVisual purchased three
25 (3) software development tools and miscellaneous telecommunications
26 equipment to assist Mr. Renfrore in developing the System's source code.
(Ct. Rec. 45-3 at 4.) bVisual also paid various software engineers to

1 test source code for bugs. (Ct. Rec. 45-3 at 5.) Otherwise, all of
2 Mr. Renfroe's equipment - including computers, test computers, and other
3 standard development tools - were purchased by Numbers Consulting, Inc.
4 for Mr. Renfroe's use. (Ct. Rec. 66 at 5.)

5 After years of development, bVisual conducted a limited beta test
6 of the System in February 2008. (Ct. Rec. 45-3 at 6.)

7 **D. Fallout**

8 Shortly after the February 2008 beta test, bVisual ran out of start-
9 up capital and stopped paying every invoice that Numbers Consulting, Inc.
10 submitted on Mr. Renfroe's behalf. (Ct. Recs. 10, Ex. A; 11 at 3; 66 at
11 8.) In November 2008, Mr. Renfroe demanded - not accounting for the
12 unpaid invoices - a 100,000-share bonus for "killing [himself] to get
13 this product done." (Ct. Rec. 45-3, Ex. 6.) Tony Larson countered with
14 a \$500,000.00 bonus proposal. Mr. Renfroe rejected the offer, stopped
15 all work on the System, and formally resigned all services to bVisual.
16 (Ct. Recs. 45-3, Ex. 6; 66 at 8.)

17 Around the same time, Numbers Consulting, Inc. began the process of
18 obtaining an expedited copyright registration for the System's video
19 source code. (Ct. Rec. 11 at 3.) In early December 2008, Numbers
20 Consulting, Inc. transferred all of its right, title, and interest in the
21 System to Numbers Licensing, LLC.³ *Id.* Shortly thereafter, Numbers

23 ³ Numbers Consulting, Inc., is the entity which provided
24 services. Numbers Licensing, LLC., is the entity created simply for
25 copyright ownership purposes. Both entities are wholly owned by the
26 Renfroes; therefore for purposes of this motion, "Numbers" refers to the
entities collectively.

1 Licensing LLC received a Copyright Certificate of Registration for the
2 System. (Ct. Rec. 11, Ex. B.)

3 In February 2009, the Renfroes learned that bVisual had hired other
4 software engineers to modify the System's source code. (Ct. Rec. 66 at
5 8.) Unwilling to let other "technologically proficient individuals"
6 view, copy, and modify Numbers' copyrighted source code, they filed the
7 copyright infringement action and preliminary injunction request now
8 before the Court. (Ct. Rec. 63, Ex. A.)

9 II. DISCUSSION

10 A. bVisual's Motion to Strike (Ct. Rec. 47)

11 bVisual moves to strike selected paragraphs from Jan Renfroe's
12 Declaration as hearsay, unsupported generalities, and conclusory legal
13 characterizations. (Ct. Rec. 49 at 2.) Numbers counters that
14 Ms. Renfroe's declaration, to the extent that it is deficient, is cured
15 by subsequently-filed declarations and considers the issue moot. (Ct.
16 Rec. 68 at 1-2.)

17 Federal Rule of Civil Procedure 65, which addresses preliminary
18 injunctions, does not state the minimum evidentiary criteria required for
19 declarations submitted in support of preliminary injunctions; Rule 56,
20 however, provides a useful guide. Rule 56 states that "[a] supporting
21 or opposing affidavit must be made on personal knowledge, set out facts
22 that would be admissible in evidence, and show that the affiant is
23 competent to testify on the matters stated." FED. R. CIV. P. 56(e)(1). An
24 exception to this rule permits a district court to consider otherwise
25 inadmissible evidence when ruling on a preliminary injunction if exigent
26 circumstances exist (e.g., a time-sensitive issue requiring expedited
briefing where evidentiary compliance cannot be obtained). See *Flynt*

1 *Distrib. Co. v. Harvey*, 734 F.2d 1389, 1394 (9th Cir. 1984) ("The urgency
2 of obtaining a preliminary injunction necessitates a prompt determination
3 and makes it difficult to obtain affidavits from persons who would be
4 competent to testify at trial.").

5 Here, bVisual identified valid evidentiary deficiencies in
6 Ms. Renfroe's declaration. For example, Ms. Renfroe alleges in ¶ 4 that
7 her husband was paid \$60.00 an hour for his services. Ms. Renfroe lacks
8 personal knowledge to make such a statement. And because there are no
9 exigent circumstances warranting a deviation from Rule 56(e) (Numbers had
10 several months to obtain declarations from the proper people after
11 learning of bVisual's infringing activities), full compliance with the
12 evidentiary rules is appropriate and the deficient paragraphs are
13 properly stricken. It should be noted that Numbers essentially admits
14 to the deficiencies in its opposition. (Ct. Rec. 68.)⁴

15 **B. Numbers' Motion for Preliminary Injunction (Ct. Rec. 9)**

16 **1. Necessity for an Evidentiary Hearing**

17 As an initial matter, it is necessary to decide whether the Court
18 should hold an evidentiary hearing before ruling on the preliminary
19 injunction.⁵ An evidentiary hearing need not occur as a matter of course
20 before a district court rules on a preliminary injunction. *Kenneally v.*
21 *Lungren*, 967 F.2d 329, 334 (9th Cir. 1992) (citation omitted). "[I]f the
22 disputed [] facts are simple and little time would be required for an
23

24 ⁴ This ruling has little to no effect on the preliminary
25 injunction motion because Numbers submitted admissible equivalent
26 evidence in subsequently-filed declarations.

⁵ The parties did not request an evidentiary hearing.

1 evidentiary hearing, proceeding on affidavits alone might be
2 inappropriate. But an evidentiary hearing should not be held when the
3 magnitude of the inquiry would make it impractical." *Int'l Molders' &*
4 *Allied Workers' Local Union, No. 164 v. Nelson*, 799 F.2d 547, 555 (9th
5 Cir. 1986).

6 The Court finds that an evidentiary hearing is unnecessary; the
7 declarations on file provide a sufficient basis for the Court to make an
8 informed decision. Moreover, the complex nature of the disputes cannot
9 be practically resolved in an evidentiary hearing. For example,
10 resolving the copyright ownership question will require detailed
11 inquiries into Tony Larson's involvement in the System's source code
12 design - this will likely require expert testimony regarding computer
13 programming. Practical resolution in an evidentiary hearing therefore
14 would be difficult. As such, it is appropriate to rule on the motion
15 without holding an evidentiary hearing. See *id.* at 555.

16 **2. Preliminary Injunction Standard**

17 "A preliminary injunction is not a preliminary adjudication on the
18 merits: it is an equitable device for preserving the status quo and
19 preventing the irreparable loss of rights before judgment." *Textile*
20 *Unlimited v. A..bmhand Co.*, 240 F.3d 781, 786 (9th Cir. 2001).
21 Preliminary injunctive relief is available to a party who demonstrates
22 either: 1) a combination of probable success on the merits and the
23 likelihood of irreparable harm; or 2) that serious questions as to
24 success on the merits are raised and the balance of hardships tips in its
25 favor. *Stormans, Inc. v. Selecky*, No. 07-36039, op. at 8465-66 (9th Cir.
26 July 8, 2009) (citations omitted). "These two formulations represent two
points on a sliding scale in which the required degree of irreparable

1 harm increases as the probability of success decreases." *A&M Records v.*
2 *Napster, Inc.*, 239 F.3d 1004, 1013 (9th Cir. 2001). Given that two
3 related but independent avenues exist for obtaining a preliminary
4 injunction, each test will be addressed in turn.

5 **3. First Test: Probable Success on the Merits and the Likelihood**
6 **of Irreparable Harm**

7 **A. Probable Success on the Merits**

8 **1) Prima Facie Case of Copyright Infringement**

9 Numbers claims that it can establish probable success on the merits
10 because it owns a registered copyright in the System's source code. To
11 establish probable success on the merits, Numbers must first demonstrate
12 a prima facie case of copyright infringement, which requires a showing
13 of 1) ownership of the copyright, and 2) copying of an expression
14 protected by the copyright. *Johnson Controls, Inc. v. Phoenix Control*
15 *Sys., Inc.*, 886 F.2d 1173, 1174 (9th Cir. 1989).

16 The Court finds that Numbers establishes a prima facie case of
17 copyright infringement. First, Numbers holds a copyright certificate of
18 registration in the System's video source code, which constitutes prima
19 facie evidence of copyright validity. See 17 U.S.C. § 410(c) (2009); see
20 also *Triad Sys. Corp. v. Se. Exp. Co.*, 64 F.3d 1330, 1335 (9th Cir. 1995)
21 (noting that production of a certificate of registration raises a
22 presumption of validity in a copyright). Second, it is undisputed that
23 bVisual has a copy of the System's source code and is using and modifying
24 it. (Ct. Recs. 13 ¶ 38-39; 63-2, at 5.)

25 **2) Defenses**

26 Although Numbers can establish a prima facie case of copyright
infringement, bVisual raises the following four (4) infringement

1 defenses: 1) bVisual owns the copyright under the "work-made-for-hire"
2 doctrine; 2) bVisual has rights to use and modify the work under an
3 implied license; 3) bVisual owns the work as a purchaser of computer
4 software; and 4) Numbers' failure to identify the specific work at issue
5 precludes the Court from issuing a preliminary injunction as a matter of
6 law. Each defense is addressed in turn.

7 **a. Work-Made-for-Hire Exception**

8 bVisual argues that Numbers' copyright ownership is invalid under
9 the work-made-for-hire exception because 1) Mr. Renfro was working as
10 an "employee" of bVisual, and 2) bVisual ordered the work for use as
11 contribution to a "collective work." (Ct. Rec. 45 at 4.)

12 The Copyright Act provides that a protected work vests initially in
13 the work's author or authors. 17 U.S.C. § 201(a). Under the work-made-
14 for-hire exception, however, copyright ownership will vest with an
15 author's employer or in a third party in two (2) scenarios: 1) when a
16 work is prepared by an employee within the scope of his or her
17 employment; or 2) when a work is specially ordered or commissioned for
18 use as a contribution to a collective work and the parties expressly
19 agree in a written statement signed by them that the work shall be
20 considered a work-made-for-hire. *Id.* §§ 101, 201(b).

21 **i. First Exception - Scope of Employment**

22 Turning to the first work-made-for-hire exception, bVisual argues
23 that Mr. Renfro was a bVisual employee and, therefore, that it owns the
24 System's source code copyright. (Ct. Rec. 45 at 5-6.) Numbers responds
25 that Mr. Renfro was an independent contractor, not a bVisual employee.

26 When determining whether a hired party is an "employee" under the
work-made-for-hire exception, courts apply common law agency principles,

1 which identify the following non-determinative factors: 1) the hiring
2 party's right to control the manner and means by which the product is
3 accomplished; 2) the skill required to complete the task; 3) the extent
4 of the hired party's discretion over when and how long to work; 4) the
5 method of payment; 5) the source of the instruments and tools used;
6 6) the location and duration of the relationship and work; 7) the extent
7 to which the hiring party has the right to assign additional projects;
8 and 8) the tax treatment and the provision for employee benefits provided
9 to the hired party. *Cnty. for Creative Non-Violence v. Reid*, 490 U.S.
10 730, 751-52 (1989) (citation omitted).

11 The Court finds that Mr. Renfroe was an independent contractor and
12 not a bVisual employee based on the following seven (7) facts: First,
13 since 2002, Mr. Renfroe worked for Numbers Consulting, Inc., a
14 corporation that he formed with his wife, and provided services to
15 bVisual⁶ through Numbers. Numbers then sent weekly invoices to bVisual
16 for Mr. Renfroe's work. (Ct. Recs. 45-3 at 3; 66 at 2 ¶¶ 4-5.) Second,
17 Numbers was responsible for Mr. Renfroe's payroll obligations, tax
18 obligations, and employee benefits. (Ct. Recs. 64 at 2; 62 at 2; 45-3 at
19 7.) Third, although bVisual purchased some software development tools
20 and miscellaneous telecommunications equipment for Mr. Renfroe's use,
21 Numbers supplied much of the equipment used, including computers, test
22 computers, and other standard development tools. (Ct. Recs. 45-3 at 4;
23 66 at 5.) Fourth, while it is true that Tony Larson was heavily involved
24 in some aspects of the source code's creation, he was not capable of

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26 ⁶ Mr. Renfroe did not work for anyone else during this time. (Ct.
Rec. 45-3 at 3 ¶ 7).

1 detailed code review. As such, Mr. Renfroe's services were sought for
2 a specific purpose - his specialized programming knowledge. bVisual
3 therefore had no right to assign additional projects to Mr. Renfroe as
4 they would to a regular, salaried employee. (Ct. Recs. 45-3 at 3 ¶ 7; 60-
5 2 at 5; 66 at 4 ¶ 12.) Fifth, while Mr. Renfroe would go to bVisual's
6 office on occasion to de-bug software, he wrote the System's source code
7 primarily at his Numbers' office on his own schedule, with discretion as
8 to how he performed his work. (Ct. Rec. 66 at 3 & 5 ¶¶ 12 & 25.) Sixth,
9 while Mr. Renfroe is alleged to have held himself out as bVisual's Chief
10 Technology Officer, there are instances where Mr. Renfroe explicitly
11 denies being a bVisual employee. For example, when signing a document
12 acknowledging receipt of bVisual's employee handbook, Mr. Renfroe
13 specifically crossed out "employee" and wrote "contractor" before signing
14 the acknowledgment. (Ct. Recs. 45-3 at 8 ¶ 19; 45-3 Ex. 6 & 10; 66 at 2
15 ¶ 6.) Seventh, communication between bVisual and Mr. Renfroe is replete
16 with a "we" versus "you" mentality. By way of example, the
17 confidentiality agreement Mr. Renfroe signed states "**You** . . . will
18 receive confidential and secret information from bVisual . . . for the
19 purpose of fulfilling your services **to the company** ('Transaction')." (Ct.
20 Recs. 45-3, Ex 1, Ex.6, & Ex. 10.)

21 These facts, when taken together, support a finding that Mr. Renfroe
22 was an independent contractor. See *Reid*, 490 U.S. at 752-53 (finding
23 independent contractor status when a highly skilled sculptor was working
24 on his own time, in his own studio, supplying his own tools, and was
25 provided neither employee benefits nor placed on the company payroll).⁷

⁷ While Mr. Renfroe did write on one occasion that "I've worked
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ii. Second Exception - Collective Works

Turning to the second work-made-for-hire exception, bVisual argues that they are the original copyright owners because the code was part of a collective work in the System as a whole. (Ct. Rec. 45 at 8-9.) Numbers claims that this position is unfounded because the parties did not execute a signed, written agreement expressing this intent. (Ct. Rec. 60-2 at 7.)

A signed writing expressing the intent to have a work-made-for-hire is a prerequisite to establishing a collective work. 17 U.S.C. § 101(2). The writing requirement accomplishes Congress's intent to have certainty in copyright disputes. See *Reid*, 490 U.S. at 749 (noting that "with [a writing requirement], the parties at the outset can settle on relevant contractual terms, such as the price for the work and the ownership reproduction rights.>").

The Court finds that the second work-made-for-hire exception is inapplicable. Neither party produced a signed, written agreement expressing an intent to place initial ownership rights with bVisual. The work-made-for-hire exception therefore lacks the necessary writing component. bVisual argues that the writing requirement is evidenced through the "communication" embedded in the source code where Mr. Renfro added the copyright notice "Numbers Consulting for bVisual, copyright." This position is untenable and is inconsistent with the Congressional intent to have certainty in copyright ownership at the outset. Moreover,

for this company for the last three years. . .," the Court places little emphasis on this e-mail because it is unclear whether Mr. Renfro is referring to his status as a contractor. (Ct. Rec. 45-3, Ex. 6.)

1 to the extent that these code entries satisfy the writing requirement,
2 they lack the parties' signatures. See *id.* at 750.⁸

3 **iii. Summary: Work Made for Hire**

4 In sum, neither work-made-for-hire exception applies. bVisual
5 cannot, for purposes of this preliminary injunction, establish that
6 Mr. Renfroe was a bVisual "employee" or that Mr. Renfroe produced the
7 work under the specially-ordered collective work. Therefore, bVisual
8 cannot establish original copyright ownership.

9 **b. Implied License**

10 bVisual next argues that if it cannot establish initial copyright
11 ownership, then, at a minimum, it has an implied license to use the
12 System's source code. (Ct. Rec. 45 at 10.) Numbers disagrees, arguing
13 that it has not granted bVisual a license, implied or otherwise, to use
14 the copyrighted work. (Ct. Rec. 60-2 at 10.)

15 Though exclusive licenses must be in writing, grants of non-
16 exclusive licenses need not be in writing, and may be granted orally or
17 by implication. *Asset Mktg. Sys., Inc. v. Gagnon*, 542 F.3d 748, 754 (9th
18 Cir. 2008) (*cert. denied*). An implied license will be found when 1) a
19 person (the licensee) requests the creation of a work, 2) the creator
20 (the licensor) makes that particular work and delivers it to the licensee
21 who requested it, and 3) the licensor intends that the licensee-requestor

22
23 ⁸ bVisual's reliance on *Warren v. Fox Family Worldwide*, 328 F.3d
24 1136, 1141 (9th Cir. 2003), for the proposition that an employment
25 agreement does not require specific "work-made-for-hire" language is
26 unpersuasive. In *Fox*, a written agreement existed placing copyright
ownership with the hiring party. Here, there is no agreement.

1 copy and distribute his work. *Id.* at 754-55. "[T]he relevant intent is
2 the licensor's objective intent at the time of the creation and delivery
3 of the software as manifested by the parties' conduct." *Id.* at 756.
4 Because Numbers concedes that the first two (2) requirements for an
5 implied license exist, only the third requirement - licensor's intent -
6 merits discussion. (Ct. Rec. 60-2 at 10.)

7 The Ninth Circuit finds three (3) factors persuasive in determining
8 a licensor's intent to convey a license: 1) whether the parties were
9 engaged in a short-term discrete transaction as opposed to an ongoing
10 relationship; 2) whether the creator utilized written contracts providing
11 that copyrighted materials could only be used with the creator's future
12 involvement or express permission; and 3) whether the creator's conduct
13 during the creation or delivery of the copyrighted material indicated
14 that use of the material without the creator's involvement or consent was
15 permissible. *Gagnon*, 542 F.3d at 756 (citations omitted). These are
16 known as the *Gagnon*-intent factors.

17 The Court finds that bVisual obtained an implied license to continue
18 using and modifying the System's source code. Under the three (3)
19 *Gagnon*-intent factors, Numbers has not introduced objective evidence of
20 intent to retain ownership in the copyright before resigning services
21 from bVisual.

22 Under the first *Gagnon*-intent factor (short-term transaction versus
23 ongoing relationship), the Ninth Circuit, unfortunately, has not yet
24 clarified whether the existence of an ongoing relationship favors an
25 implied license finding. See *id.*⁹ Numbers argues that the ongoing
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⁹ It should be noted, however, that while the Ninth Circuit's
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1 relationship here created an expectation of future involvement sufficient
2 to establish that Mr. Renfroe did not intend to grant bVisual a license.
3 (Ct. Rec. 60-2 at 11.) This argument is unpersuasive. Mr. Renfroe, like
4 the software developer in *Gagnon*, was an independent contractor, a status
5 that should not create any long-term or permanent expectations of
6 involvement in the company. Moreover, the ongoing relationship provided
7 numerous opportunities for Mr. Renfroe to communicate his intent to deny
8 bVisual a license. Instead, three-and-a-half years passed before
9 Mr. Renfroe made known his intent to retain his rights in the System's
10 source code. In fact, he was silent about his ownership when licensing
11 was discussed (e.g., upon request, Mr. Renfroe inserted bVisual's End
12 User License Agreement into the System's source code but did not claim
13 ownership in the license). (Ct. Rec. 45 at 9.)

14 Under the second *Gagnon*-intent factor (creator's use of a written
15 contract), Numbers' failure to obtain a written agreement retaining
16 licensing rights supports finding of an implied license. Not only was
17 there no agreement, but also bVisual and Numbers never discussed
18 licensing arrangements and Numbers never denied bVisual a license until
19 the relationship ended. When a license has not been denied and
20 substantial sums of money are paid for the copyrighted work, the absence
21 of a licensing agreement supports the finding of an implied license. See
22 *Gagnon*, 542 F.3d at 757 (noting that a belated statement denying a
23

decision in *Gagnon* lacked substantive analysis of the first *Gagnon*-intent
24 factor, it ultimately found that an implied license existed when the
25 parties had an ongoing three-and-a-half year relationship.
26

1 license is not sufficient after substantial sums were paid for the work);
2 *see also Effects Assoc., Inc. v. Cohen*, 908 F.2d 555, 558-59 (9th Cir.
3 1990) (noting that if no implied license was found, the plaintiff's
4 contribution would be of minimal value - a conclusion that cannot be
5 squared considering the plaintiff was paid \$56,000 for his work).
6 Similarly, because Numbers was paid a substantial sum - both in money and
7 stock - for the delivery of the System's source code, an implied license
8 should be found absent objective factors indicating the denial of a
9 license. No substantive evidence that Numbers denied bVisual a license
10 at the time of the System's delivery has been introduced.

11 Under the third *Gagnon*-intent factor (the creator's conduct),
12 Mr. Renfroe's conduct on three (3) separate occasions objectively
13 demonstrates that he did not intend to deny bVisual use of the System's
14 source code. First, Mr. Renfroe inserted the copyright notice "Numbers
15 Consulting for bVisual, copyright" 112 times in the source code.¹⁰ No
16 claims of copyright ownership were made by Mr. Renfroe at this time.
17 Second, Mr. Renfroe confirmed to Brian Larson that bVisual would be the
18 owner of the copyrights in the program when discussing the insertion of
19 the End User License Agreement into the code. (Ct. Doc. 45-4 at 2 ¶ 2.)

20
21 ¹⁰ While Plaintiff argues that "Numbers Consulting for bVisual,
22 Copyright" is ambiguous and does not demonstrate intent to grant
23 copyright ownership to bVisual, the Court does not find this language
24 ambiguous; Mr. Renfroe explicitly asked bVisual for guidance on how the
25 System's copyright notice should read in the code. (Ct. Rec. 45-3, Ex.
26 5.)

1 Again, Mr. Renfroe made no claims of copyright ownership. *Id.* Third,
2 according to Tony Larson, from February 2008 until the time that Mr.
3 Renfroe resigned his services, he was aware of the licensing and
4 subscription management process used by bVisual in its beta test to
5 obtain licensing agreements and fees from end-users of the bVisual
6 system. (Ct. Rec. 102 at 4 ¶ 11.) No copyright ownership claims was made
7 by Mr. Renfroe with respect to the subscriber license fees collected by
8 bVisual. *Id.*

9 **c. Other defenses**

10 Given the strength of bVisual's implied license defense, it is
11 unnecessary to consider the remaining two (2) defenses.

12 **B. Irreparable Harm**

13 Under the circumstances, consideration of irreparable harm is also
14 unnecessary; bVisual's implied license defense raises serious questions
15 to the probability that Numbers will succeed on the merits.

16 **C. Summary: First Test**

17 In sum, the Court finds that bVisual's implied license defense
18 raises serious questions to the merits of Numbers' copyright infringement
19 claim; therefore, Numbers cannot demonstrate probable success of this
20 claim for purposes of this motion.

21 Given that two (2) related, but independent tests exist for
22 obtaining a preliminary injunction, the Court now turns to the second
23 test.

24 **4. Second Test: Serious Questions are Raised and the Balance of**
25 **Hardships Tips in Favor of the Moving Party.**

26 In evaluating the balance of hardships, a court must consider the
impact that granting or denying a motion for a preliminary injunction

1 will have on the respective enterprises. *Int'l Jensen, Inc. v.*
2 *Metrosound, U.S.A., Inc.*, 4 F.3d 819, 827 (9th Cir. 1993).

3 **1) Hardships for Numbers**

4 Numbers argues in its briefing that the balance of hardships tips
5 in its favor because a failure to grant an injunction will cause
6 irreparable harm in terms of lost sales, customer goodwill, and loss of
7 an unfair competitive advantage. (Ct. Rec. 9 at 8.) During oral
8 argument, Numbers argued that bVisual's ability to view and modify the
9 genius and creative expression in the code will result in irreparable
10 injury to Numbers.

11 The Court finds both arguments unpersuasive. First, Numbers is not
12 in the sales business; rather, the company provides programming and
13 accounting services. Further, while the video portion of the source code
14 created for the bVisual system may be independently marketable, no such
15 market has been identified and no potential buyers have been discussed.
16 In addition, it is unclear what goodwill is at risk and with what
17 customers. Numbers has very few customers. In fact, for three-and-a-
18 half years, bVisual was Numbers' sole client or customer. Since
19 resignation of services to bVisual, Numbers has only indicated one (1)
20 other client. (Ct. Rec. 66, Ex. D.) Lastly, an unfair competitive
21 advantage, if one exists, only exists with bVisual. For three-and-a-half
22 years, Numbers was working for and with bVisual, in concert, not in
23 competition, and given that bVisual has demonstrated in the preliminary
24 injunction stage rights to a non-exclusive license in the copyright, any
25 competition between the companies related to these rights hardly seems
26 unfair.

1 Second, if Numbers was concerned that others might be able to view
2 the creative genius in the code, it would not have filed exhibits
3 containing Mr. Renfroe's genius in the public record. Counsel for
4 Numbers admitted that the documents filed contained commercially
5 sensitive information related to particular portions of the software code
6 and contained particular system architecture designs. (Ct. Rec. 70 at 2.)
7 Competitors could use the information to develop competing products. *Id.*
8 Though these exhibits have since been sealed, Numbers' argument has lost
9 credibility with the Court.

10 Although the Court finds Numbers' hardship arguments unpersuasive,
11 the Court nevertheless turns to bVisual's hardships.

12 2) Hardships for bVisual

13 bVisual claims that a preliminary injunction would cause hardship
14 far beyond lost profits because the company and its shareholders "stand
15 to lose everything," including three (3) years of work and over
16 \$3 million in development expenses. (Ct. Rec. 45 at 19.) While it may
17 be unlikely that it will in fact lose everything, bVisual has had
18 difficulty raising additional venture capital as a result of delays
19 caused by Mr. Renfroe's departure. (Ct. Rec. 63-2 at 5, Ex. A.) Continued
20 delays will prevent bVisual from launching the System and prevent the
21 company from getting off the ground. In addition to all other
22 shareholders, Mr. Renfroe also stands to lose his ownership interest if
23 the company fails.

24 In sum, the Court finds that the balance of hardships does not tip
25 in Numbers' favor; instead, it appears to tip in bVisual's favor.

26 Accordingly, **IT IS HEREBY ORDERED:**

1. Defendants' Motion to Strike (Ct. Rec. [47](#)) is **GRANTED**.

1 2. Plaintiff's Motion for Preliminary Injunction (Ct. Rec. 9) is
2 **DENIED.**

3 **IT IS SO ORDERED.** The District Court Executive is directed to enter
4 this Order and distribute copies to counsel.

5 **DATED** this 15th day of July 2009.

6
7 S/ Edward F. Shea

8 EDWARD F. SHEA
9 United States District Judge

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